Revenues from EU Funds in the Context of 20 Years of Czechia Membership and their Statistical Recording

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Abstract

The year 2024 marks twenty years since Czechia joined the EU. This anniversary offers an opportunity to evaluate the benefits and losses associated with the membership, and a sufficiently long time series allows such an evaluation to be made on representative data sets. Among others, the evaluation of the membership based on drawing financial funds from the EU budget stands out. Since joining the EU in 2004, the Czech Republic has received one trillion crowns more from the EU budget than it has paid into it. At the same time, in no year since 2004 the balance of income and expenditure in relation to the EU budget has been negative. This article describes basic principles of the EU funds and deals with accrual recording in national accounts and the cash flow concept. In the context of 20 years of EU membership, it then evaluates the net position of Czechia in relation to the EU and the influence of income from the EU on the revenue of general government.

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European Union, general government, national accounts, EU funds	*https://doi.org/10.54694/stat.2024.35*	*E01, E69, F15*

INTRODUCTION

One of the important arguments supporting the membership of the Czech Republic in the EU is the possibility of drawing financial resources from the European funds, which in the long term exceed the amount of financial contributions that country as a member state must pay into the EU budget. European funds are a key tool of the EU's economic policy. As an important element of European economic integration, it serves for redistribution of financial resources in order to reduce economic and social differences between individual member states and between regions in the EU. Member states draw

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subsidies from European funds either through operational programs administered at the national level, or through EU programs directly under the administration of the European Commission, or through various specifically focused funds established directly by EU institutions.

The most important European funds include the European Regional Development Fund, the Cohesion Fund, the European Social Fund, the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. European funds do not only provide classic subsidies, but also provide specific financial instruments, which can take the form of loans, loan guarantees and direct capital participation supporting various development projects. In addition, the European Union creates other specifically focused funds in response to some emergency situations, such was the so-called "Recovery Fund" (officially "Recovery and Resilience Facility"), which was created in response to the coronavirus pandemic in 2020. As a tool for implementing of the European Green Deal, there was established so-called "Modernisation Fund" for a purpose of improvement of energy efficiency in lower-income EU Member States.

This article focuses in first part on basic principles of the EU funds and EU budget rules and in second part deals with accrual recording of the flows in national accounts and the cash flow concept in other statistics in Czechia. In the context of 20 years of EU membership, it then in third and fourth part evaluates the net position of Czechia in relation to the EU with pointing to some specifics and evaluates the influence of income from the EU on the revenue of the Czech general government.

1 BASIC FEATURES OF THE EU BUDGET RULES

The regular EU budget is annually proposed by the European Commission and approved by the EU Council and the European Parliament. It must be drawn up as balanced, which is a significant difference compared to the budgets of the Member States. Annual expenditure must not exceed the ceilings given by the programming period for individual years, whereby the programming period (sometimes also called the multiannual financial framework) represents the allocated EU funds for the member states for a period of seven years (specifically, for example for the years 2000–2006, 2007–2013, 2014–2020 and 2021–2027). Specific goals and priorities are set for each of these periods, which the EU and the member states are trying to achieve. Budgetary funds can usually be used two or three years after the end of the relevant programming period (the so-called N+2 or N+3 rule).

The so-called the EU's own resources, derived from the gross national income (GNI) and paid by the member states, represent the largest source of revenue for the EU budget. Their amount varies slightly each year depending on the total revenue that needs to be supplemented to cover expenses after taking into account the remaining EU revenue from customs duties, contributions derived from Member States' VAT based on the so-called weighted average VAT rate and other sources (e.g. fines and penalties, contributions of third parties, etc.). Accordingly, a uniform GNI levy ratio is used for all member states, with an annual cap of 1.40% of GNI currently in force.

The calculation of the GNI of each member state is determined according to the uniform methodology of national accounts (ESA 2010 regulation). This is also one of the reasons why Eurostat consistently verifies the data sources and methods used by the Czech Statistical Office and other member states statistical offices for the calculation of GNI in their national accounts. Such verification is done in the form of regular Eurostat dialogue visits, preparing of regular reports and answering regular queries on the data being sent by statistical offices.

2 METHODOLOGY − ACCRUAL VERSUS CASH RECORDING

The issue of recording EU flows is important for national accounts as well as for the correct calculation of the deficit and debt of general government. EU member countries must exclude flows from the EU to their budgets from the general government accounts and record them instead at the time when related domestic expenditure is realized. The basic rule is that EU funds must not affect the balance of the general government in member states (often referred to as the „rule of neutralization of EU flows“ in national accounts).

Revenue from EU funds is thus recorded in the national accounts already at the moment of pre-financing from domestic budgets (realization of domestic expenses) and at the same time, in order to cover the expenditure, a claim against the EU is recorded for individual projects. The claim will disappear after the project is reimbursed in cash from the EU, which, however, can be up to many years later.

The concept of national accounts is different from the cash concept, which is monitored regularly by the Czech Ministry of Finance when monitoring the balance of income and expenditure against the EU budget, respectively monitoring the so-called net position of the Czech Republic in relation to the European Union. EU flows are monitored in the state budget on a cash basis. They affect the balance of the state budget directly during the years of the programming period in the form of pre-financing of projects from the state budget, additional financing during their implementation and on the revenue side at the time of financial closure and accounting of the project or when advances are provided.

In order to avoid distortion of the total cash balance of the state budget by extraordinary revenues from the EU and pre-financed projects, the Ministry of Finance also regularly publishes the results of the state budget after adjustment for revenues and expenditures for projects from the EU. At the same time it is necessary to mention that the vast majority of EU projects are financed through the state budget, even if the beneficiaries of the funds are units outside of general government.

The recording methods described above are important primarily because the volume of funds from the EU budget is significant and unstable over time, so the economic results / balance of general government would be somewhat misrepresented by their inclusion in different time than relevant expenditure. Even if the weight of EU flows in the total volume of government revenue is not so great (as will be seen later in the text), the impact of net revenue from the EU on the government balance (the difference between total government revenue and expenditure) would be in some years significant.

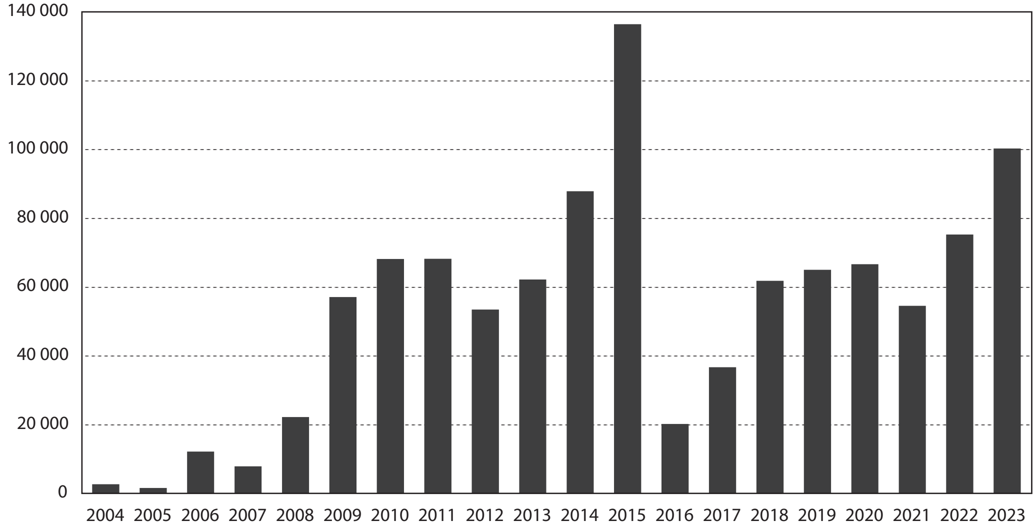
3 CZECH BALANCE THROUGHOUT 20 YEARS OF MEMBERSHIP IN THE EU

3.1 Revenue from the EU exceeded expenditure all the time

As stated in the previous chapter, the development of income from the EU is unstable over time, so the results of the balance (deficit) of general government would be distorted by their inclusion in different time than relevant expenses. From the Figure 1, which shows the total balance of income and expenditure of Czechia with the EU since 2004 (net position or “net revenue”), it is evident that the increased use of EU funds is usually at the very end of the programming period or not long after its end according to the N+2 rule (as described above). We therefore witness a high increase in the positive balance mainly in 2015 (last possibility of drawing up of EU subsidies from the period 2007–2013), the similar effect can also be seen in 2022 (final drawing up of subsidies from the programming period 2014–2020). At the same time, it is important to point out that in the cash balance overview monitored regularly by the Ministry of Finance, the mentioned effect is usually seen some time later (at the time of financial closure and accounting of the projects), even if the basic trend is the same as in the national accounts figures.

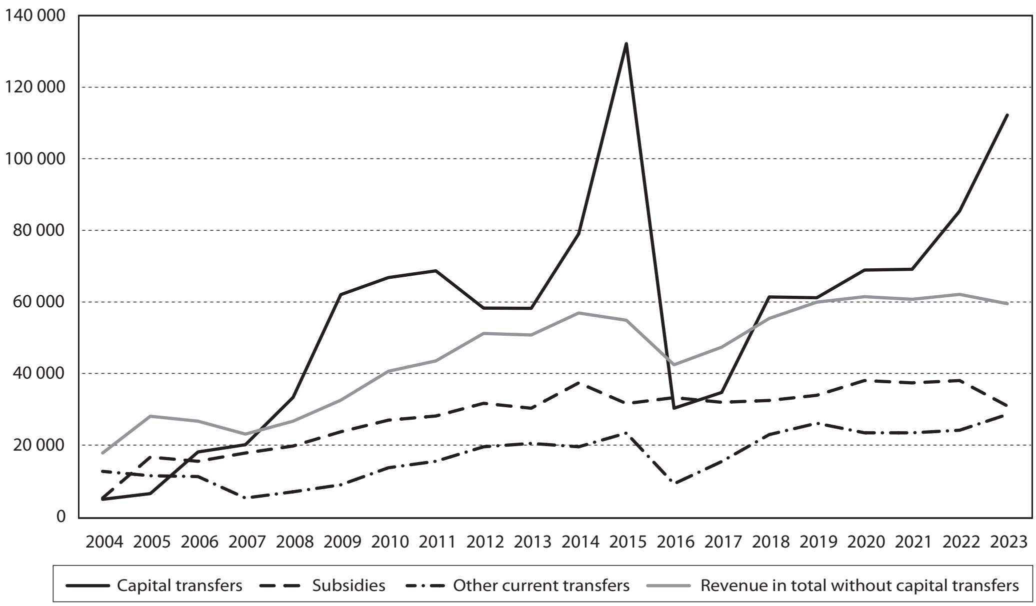
In total, Czechia received CZK 1 061.5 billion more from the EU budget for the entire period from 2004 to 2023 than it paid into it. The influence of the programming period on the dynamics of drawing funds from European funds is also evident when looking at the structure of Czech revenues from the EU according to individual items of the national accounts (see Figure 2). While a relatively stable, slightly increasing growth of revenue since 2008 can be observed for subsidies and, in most cases, for other current transfers, the development is much more deviating for capital transfers, reflecting the above-mentioned effects of drawing funds within programming periods. Especially the amount of received capital transfers from the EU in 2015 is extreme in the observed time series. In 2023, the relatively higher growth of capital transfers from the EU was mainly caused by drawing funds for energy savings for houses and flats from the "Modernisation Fund", which increased the share of income from the EU budget for non-governmental sectors, especially for households (compared to the past).

Figure 1 Balance of revenues and expenditure of Czechia with the EU budget in period 2004–2023 (CZK mill)



Source: Czech Statistical Office

Figure 2 Revenue from the EU budget in period 2004–2023 by category (CZK mill)



Note: Capital transfers – represent mainly investment subsidies used to finance the costs of fixed assets acquisition; other current transfers – represent mainly non-investment transfers, e.g. to cover operating expenses, wages, etc.
Source: Czech Statistical Office

3.2 Excluded EU projects – unpaid EU projects

Any future non-payment of the cash subsidy from the EU or its reduction results in a worsening of the deficit of general government in national accounts at the relevant moment as a counterweight to the previously recorded (at the time of pre-financing from national sources) income from the EU. This also occurs as a result of corrections in the event of errors of a systemic nature at the level of ministries (e.g. non-compliance with the control system, errors in the tender process, etc.). In such a case, government expenditures in the amount of the relevant correction are recorded in the national accounts and claims to the EU are reduced at the moment when the EU authorities decided on this correction. Physically, there is no returning of funds back to the EU budget, but it means a reduction in the value of expenses that will be reimbursed by the EU in future. Unlike the national accounts recording, there is no direct impact on the cash balance of the state budget.

4 DISCUSSION

There are often objections from professional and wider public critics that net revenues from the EU budget cannot be assessed separately from other transactions from and to the EU, and that a positive balance with the EU budget is compensated by a negative balance in dividend payments abroad. According to these opinions the export of Czech foreign controlled companies profits to their parent companies in the EU should be also taken into account. However, such different kind of transactions cannot be simply mixed up, as the free movement of capital is an established global standard even outside the EU and independent of the EU membership. The outflow of dividends from Czechia also occurs to non-European countries, while revenue from the EU budget to the extent that it was seen over the past 20 years are exclusively linked to our EU membership. The higher outflow of dividends abroad is also a logical consequence of the privatization processes and the policy of investment incentives implemented by the Czech governments even before the country joined the EU (and not a direct consequence of membership in the Union).

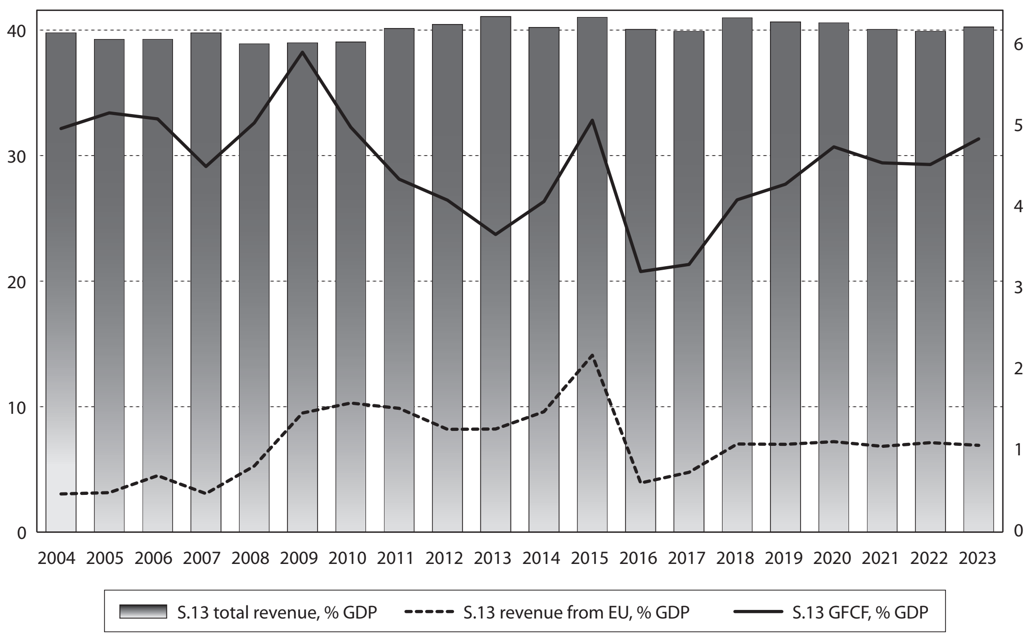
4.1 Causes of the Czech positive balance

Of course, so that the Czech Republic be able to get more from the EU budget than it pays into it, the other countries, on the contrary, have to pay more than they received. As in the case of other countries that joined EU in 2004, the positive balance of new members was consequently paid by the richer EU member states. This is due to the fact that, for example, the European Regional Development Fund is set to help less developed regions whose GDP per capita does not reach 75% of the EU average. In recent years, in addition to Prague, the regions NUTS 2 of Central Bohemia and the Southeast (South Moravian and Vysočina Region) have consistently exceeded this level, but the current set of rules allows subsidies to be drawn even for the so-called transitional regions, whose GDP per inhabitant is between 75 and 100% of the EU average. All remaining Czech NUTS 2 regions are also close to the 75% level, with the Southwest (South Bohemian and Pilsen Region) consistently exceeding it (with some exceptions), while only the Northwest (Ústí and Karlovy Vary Region) is consistently below this level. The Cohesion Fund is then reserved for member states whose GNI per inhabitant is below 90% of the EU average, and although Czech has been moving close to this level in recent years, it has not yet exceeded it. All the factors mentioned above contribute to the fact that the country remains for the time being a net recipient of funds from the EU budget.

4.2 Revenues from the EU in relation to the general government revenue

Figure 3 shows the general government (S.13) total revenue in relation to GDP (columns, left axis) and government revenue from the EU and government gross fixed capital formation (GFCF) in relation to GDP (lines, right axis). In this relative concept, the investment activity of the general government peaked in 2009 (5.9% of GDP), which was largely due to a slowdown in investment activity in the private sectors and a significant drop in GDP that year. However, there can be also observed an increase in total revenues from the EU for general government at the same time (from 0.5% of GDP in 2007 to 1.5% of GDP in 2009), which could have stimulated this government investment activity. From the development, it can be deduced that national institutions began to more efficiently draw funds from the EU only about 5 years after joining the EU (this also corresponds to the development of net revenue and revenue from the EU for the all sectors in Figures 1 and 2).

Figure 3 General government total revenue and gross fixed capital formation (GFCF) in relation to GDP



Source: Czech Statistical Office

Figure 3 also shows in columns that for the entire period of EU membership, the share of total government revenue on GDP remained stable (more precisely it reached 39.8% of GDP in 2004, while in 2023 it was 40.2% of GDP). So, surprisingly, regardless of the development of revenues from the EU, as well as political changes and changes in taxes that occurred in Czechia over a period of twenty years, the total revenue of general government represented a constant share of 40% of GDP. Even the often-discussed significant reduction in payroll taxes from 2021 did not have an impact on it. Since 2018, the general government' revenues from the EU have been steadily reaching the level of 1.1% of GDP, which is only 0.6 p.p. more than it was in 2004. It can be therefore concluded that in the total volume of revenue of the Czech general government, revenue from the EU does not represent a significant share.

CONCLUSION

European funds paid from the EU budget are one of the supporting tools of economic integration established in order to reduce economic and social differences between individual member states and regions in the EU. Since joining the European Union in 2004, the Czech Republic has received one trillion crowns more from the EU budget than it has paid into it. At the same time, in no year from 2004 to 2023 the balance of revenue and expenditure in relation to the EU budget has been negative. Accrual and cash recording provided in data of the Czech Statistical Office and the Ministry of Finance show a different time of recording of revenue and expenditure, but in the context of 20 years of membership, they offer the same picture of the overall positive balance of the country in relation to the EU budget. The dynamic of positive balance was influenced in time by the rules established for drawing funds in the framework of seven-year programming periods and was therefore relatively unstable, which was particularly evident on the side of capital transfers revenue at the end of individual programming periods. Czechia remains a net recipient of EU funds especially due to ongoing EU financial support to Czech NUTS 2 regions whose GDP per capita is still near to 75% of the EU average and also because of national GNI per capita remaining below 90% of the EU average. Both of these mentioned relative indicators represent the criteria for entitlement to support under the EU's structural and cohesion policy. Even though the balance of revenue and expenditure with the EU can distort the cash balance of the general government, in the total volume of revenue of the Czech general government, revenue from the EU represents only limited share.

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